



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET NW
WASHINGTON DC 20314-1000

CECW-P

7 March 2012

MEMORANDUM FOR MAJOR SUBORDINATE COMMANDS

SUBJECT: U.S. Army Corps of Engineers Section 902 Cost Limit Policy Clarification and Applicability

1. References:

- a. Planning Guidance Notebook, ER 1105-2-100 Appendix G;
- b. Civil Works Cost Engineering, ER 1110-2-1302;
- c. Real Estate Handbook, ER 405-2-12;
- d. Civil Works Construction Cost Index System, EM 1110-2-1304;
- e. The U.S. Army Corps of Engineers Civil Works Cost Definitions and Applicability Memorandum, 25 August 2012;
- f. Methodology for Updating Benefit-to-Cost Ratios (BCR) for Budget Development (CWPM 12-001) (draft);
- g. Certified Section 902 Limit Tool, and
- h. EC 11-2-200, 31 May 2011 ("the FY 13 Budget EC"), Illustration 3, Management Control Evaluation Checklist.

2. It is necessary to further define and clarify the proper procedure, roles, and responsibilities for ensuring that projects are budgeted, funded and constructed, as authorized and in accordance with Section 902 of the Water Resources Development Act (WRDA) of 1986, as amended, hereafter referred to as section 902. The FY 2013 budget submittals for the Construction (C) account were found to be inconsistent with the section 902 guidance contained in ref 1.a., which defines the maximum project cost limit imposed by section 902 and provides guidance on the procedures to be used on how to calculate this limit. The budget submittals and proposed funding must adhere to the legal requirements of Section 902, and it is the responsibility of the entire Corps vertical team to ensure compliance with Section 902 Cost Limit requirements.

3. All projects authorized in or after WRDA 1986 are subject to section 902, unless legally determined to be otherwise. For ALL authorized projects seeking Preconstruction Engineering and Design (PED) and/or Construction funds, it will be determined:

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- a. Whether or not a Section 902 Cost Limit is applicable;
 - b. What the appropriate Section 902 Cost Limit is using the most current cost estimate, in accordance with references 1.b. and ref 1.g.;
 - c. Comparison of the Total Allocations to date to the current Total Project Cost Estimate (which includes inflation through the mid-point of construction), and
 - d. Whether or not the Section 902 Cost Limit has undergone the proper quality control.
4. If, upon completion of the actions in paragraph 3 above, it is determined that the Total Project Cost Estimate has exceeded or will exceed the 902 Cost Limit, you should notify HQUSACE (CECW-I, CECW-P, CECW-ID, and CECW-IP) through the appropriate chain of command and provide the pertinent details.

In addition, when the Total Allocations to Date of the project are within 20-percent of the Total Project Cost Estimate for the project, a risk based decision must be made by the District Commander, to either:

- a. Seek new authority through the standard execution process of a Post Authorization Change Report (PACR), which should be properly scoped in accordance with reference 1.a., and necessary funding should be estimated and budgeted for in accordance with all appropriate guidance, or
- b. Continue without seeking new authority, determine whether the cost increase warrants a Benefit-to-Cost Ratio update per reference 1.f., and certify, where appropriate, per the budget engineering circular management control checklist, reference 1.h., as part of the MSC annual budget submittal.
- c. For all unbudgeted projects, notify HQUSACE and request guidance for proceeding through the appropriate chain of command.

5. It is the responsibility of the entire Corps vertical team to ensure compliance with Section 902 Cost Limit requirements. Command responsibilities are as follows:

- a. The Project Manager for each project, working closely with engineering cost estimators, planning economists, environmental personnel and other Civil Works disciplines, will ensure implementation of the actions in paragraph 3 each time costs change and/or the annual budget submittal. The District Commander is ultimately responsible for ensuring that paragraphs 3 and 4 are implemented and accurately reported to the MSC Commander;

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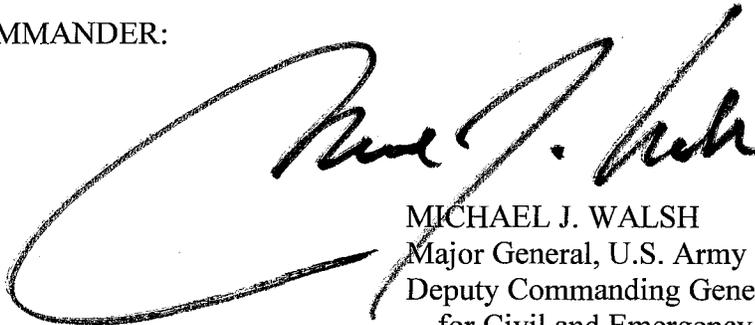
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b. It is the responsibility of MSC Planning and Policy and Civil Works Integration division staff to ensure proper quality assurance is conducted on the actions described in paragraph 3 and to aid the district in making a final recommendation to the MSC Commander pertaining to paragraph 4. The ultimate responsibility for ensuring the accurate reporting of line items that conform to Section 902 Cost Limits resides with the MSC Commander, and

c. It is the responsibility of the Headquarters Programs Integration Division and Planning and Policy Division to communicate and advise on Section 902 Cost Limit policy as requested.

6. No later than 30 April 2012, each district will implement paragraphs 3 and 4 of this memorandum for EVERY authorized PED/C Line Item in the FY12 Work Plan and the FY13 Budget, and report the findings to their MSC for quality assurance review. No later than 31 May 2012, each MSC will report this information to HQUSACE (CECW-I, CECW-P, CECW-ID, and CECW-IP). Determinations per paragraphs 3 and 4 will also be conducted for each future year budget development beginning with the FY14 budget development.

FOR THE COMMANDER:



MICHAEL J. WALSH
Major General, U.S. Army
Deputy Commanding General
for Civil and Emergency Operations

Encl

DISTRIBUTION:
COMMANDERS:
GREAT LAKES AND OHIO RIVER DIVISION, CELRD
MISSISSIPPI VALLEY DIVISION, CEMVD
NORTH ATLANTIC DIVISION, CENAD
NORTHWESTERN DIVISION, CENWD
PACIFIC OCEAN DIVISION, CEPOD
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SOUTHWESTERN DIVISION, CESWD

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CF:

RIT DEPUTY CHIEFS

GREAT LAKES AND OHIO RIVER DIVISION, RIT (CELRD)

MISSISSIPPI VALLEY DIVISION, RIT (CEMVD)

NORTH ATLANTIC DIVISION, RIT (CENAD)

NORTHWESTERN DIVISION, RIT (CENWD)

PACIFIC OCEAN DIVISION, RIT (CEPOD)

SOUTH ATLANTIC DIVISION, RIT (CESAD)

SOUTH PACIFIC DIVISION, RIT (CESPD)

SOUTHWESTERN DIVISION, RIT (CESWD)

SUSAN NEE, CECC-G

BRENDA JOHNSON-TURNER, REAL ESTATE

RICHARD LOCKWOOD, OPS

STEVE DE LOACH, E&C

ENCL 1: Section 902 of WRDA 1986, as amended (U.S. Code Title 33 Chapter 36 Subchapter V Section 2280)

In order to insure against cost overruns, each total cost set forth with respect to a project for water resources development and conservation and related purposes authorized to be carried out by the Secretary in this Act or in a law enacted after the date of the enactment of this Act, including the Water Resources Development Act of 1988, or in an amendment made by this Act or any later law with respect to such a project shall be the maximum cost of that project, except that such maximum amount—

(1) may be increased by the Secretary for modifications which do not materially alter the scope or functions of the project as authorized, but not by more than 20 percent of the total cost stated for the project in this Act, in any later law, or in an amendment made by this Act or any later law; and

(2) shall be automatically increased for—

(A) changes in construction costs applied to unconstructed features (including real property acquisitions, preconstruction studies, planning, engineering, and design) from the date of enactment of this Act or any later law (unless otherwise specified) as indicated by engineering and other appropriate cost indexes; and

(B) additional studies, modifications, and actions (including mitigation and other environmental actions) authorized by this Act or any later law or required by changes in Federal law.